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The Deutsche Bank (A)

Over most of the history of the Deutsche Bank, its managers pursued an almost continual strategy of expansion, despite numerous pitfalls and crises facing both Germany and the bank itself. As early as 1896, Georg Siemens, the first spokesman of the bank's managing board, had worried about the size of the firm. "To my mind, the Deutsche Bank has now grown too big," he wrote to his wife. "I'd have made quite a good Elector of Brandenburg, but Chancellor of Europe would be too large a task even for me."[1] At that time, the Deutsche Bank was not only the largest bank in Germany, it was also a strategic actor in the broader European market and, indeed, in the world economy.

Founded in 1870 to help finance surging German exports and imports, the bank soon moved into domestic banking. Georg Siemens aimed to create both a commercial bank and an investment bank under one roof, and he succeeded. The Deutsche Bank fulfilled its commercial role by taking deposits and offering short-term loans. As an investment bank, it managed the long-term credit needs of its customers by underwriting stock and bond flotations. Most of its private clients were big industrial firms, including still-familiar enterprises such as Krupp and BASF. The bank also underwrote the securities of national governments and railroads, many of which were publicly owned. Often the bank held significant equity stakes in its corporate clients, and it typically placed representatives on their supervisory boards.

Because it combined so many different financial functions, the Deutsche Bank has been described as a "universal bank." By the outbreak of the First World War in 1914, it stood as the most powerful financial institution in Germany. Over the next three decades, the Deutsche Bank faced a series of national crises: defeat in the war of 1914–1918, revolution in 1919, hyperinflation in 1923, economic depression in the early 1930s, the rise of Hitler in 1933, another world war in 1939, and then total defeat in 1945.

After the Second World War, the Soviets closed the Berlin headquarters of the Deutsche Bank as part of their denazification effort and their broader strategy of converting eastern Germany to a Soviet-style economy. Meanwhile, the United States, Britain, and France, occupying the western portion of Germany, attempted to implement a policy of economic decentralization. They therefore broke what remained of the bank into ten relatively small pieces.

Before long, however, many German bankers began pressing for the reconstitution of the big banks, including the Deutsche Bank; and in 1950 they advanced a specific proposal for consolidation in three districts. For the Deutsche Bank, this would mean that its ten successor banks would become three larger regional banks. Now it was up to the Allied powers and the new German legislature to accept the proposal or reject it.

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The Making of a Universal Bank

The Early Years: Trade Finance and German Nationalism

The year of the Deutsche Bank's founding was a momentous time in central Europe. In July 1870, Prussia went to war with France to assert its dominant position on the continent. Although Germany was not yet a unified country, Prussia was the strongest force in a loose confederation of independent German states. With the support of most of these smaller powers, Prussian forces quickly crushed the French army and compelled France to give up the precious territories of Alsace and Lorraine and to make huge reparations payments. Prussian Minister-President Otto von Bismarck, who had masterminded the isolation and defeat of France, now induced the other German states to unify under the leadership of the Prussian King, Wilhelm I. The establishment of a new German Empire (Reich) was proclaimed on January 18, 1871.

The intense nationalism evident in Bismarck's drive for German unification was also a factor in the emergence of the Deutsche Bank. On the eve of unification, German businesses and individuals could count on domestic banks for a wide range of financial services, from short-term credits to transfers of funds. But firms that wished to obtain financing for foreign trade generally had to turn to London bankers for assistance. German banks lacked the requisite sophistication and organizational reach to handle such international transactions.

Among those who found this humiliating were Adelbert Delbrück and Ludwig Bamberger, the two original promoters of the Deutsche Bank. Delbrück had founded his own private bank in 1854, and Bamberger, also a banker, had been elected to the parliament of the pan-German Customs Union (Zollverein) in 1868. Together with five likeminded colleagues, they pointed out in an 1869 memorandum that the "German flag now bears the German name to every corner of the world," and they declared that the establishment of a German trade bank "would be a further step towards doing honour to the name of Germany in more distant lands and carving out at last for Germany a position in the sphere of financial intermediation commensurate with that already occupied by our country in the fields of civilization, science and art."[2]

Of course, nationalism was not the only motivation behind the founding of the Deutsche Bank. Money was also at issue. Since German exports and imports had surged in the 1850s and 1860s (see **Exhibit 1**), Delbrück and Bamberger saw trade finance as a huge growth field.[3]

The Deutsche Bank opened for business in Berlin on April 9, 1870, just one month after King Wilhelm I personally approved its charter as a joint-stock bank. Joint-stock companies, which divided ownership among shareholders whose liability was generally limited to the extent of their investment, were relatively rare in Prussia. Joint-stock banks were almost unheard-of. No such bank had ever been established in Berlin and only one had ever been chartered in Prussia. At its inception, the Deutsche Bank had 76 shareholders, who together contributed capital of five million thalers. (This sum amounted to 15 million marks, or about $3.6 million. Corrected for inflation, $3.6 million in 1870 is equivalent to about $54 million today.)[4]

The founders of the Deutsche Bank set up two executive bodies to run the institution, the supervisory board and the board of managing directors. Adelbert Delbrück chaired the supervisory board while Georg Siemens and Hermann Wallich dominated the managing board. In the early years, Delbrück's supervisory board maintained tight control over bank operations and even day-to-day affairs. Since Delbrück ran a separate, private bank of his own, he wanted to ensure that the Deutsche Bank would not emerge as a competitor. Ultimately, however, the board of managing directors took

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control of management functions, assisted by the German corporation law of 1884 which explicitly limited supervisory boards to oversight functions.[5]

Although decision making on the managing board was based on a consensus style, one figure on the board, the spokesman (*Vorstandssprecher*), stood out as the first among equals. From 1870 until 1900, that position was held by Georg Siemens (who became Georg von Siemens when he was ennobled in 1899). Before joining the bank, Georg Siemens had worked for his father's cousin, Werner von Siemens, at the electrical firm of Siemens & Halske. That firm was propelled to the forefront of the German electrical industry when Werner von Siemens invented the electrical generator in 1866. Georg, whose father was a lawyer and who himself had studied law at Heidelberg, served as a negotiator for Siemens & Halske in a major telegraph deal.[6] When he accepted Adelbert Delbrück's offer in 1870 to join the Deutsche Bank, Siemens was only 30 years old. He was a very talented young man, but he knew little about banking.

Siemens's new associate Hermann Wallich, by contrast, was already well schooled in international finance. Born in Bonn in 1833, the son of a Jewish merchant, Wallich had begun to work in the banking industry at the age of 16. Several years later he left for Paris to work for his uncle's bank and subsequently for Comptoir d'Escompte, a prestigious French financial firm with strong international connections. In this job Wallich spent a good part of his time in China, Japan, and India. He was well suited to help the Deutsche Bank's effort to finance the growing international trade of German companies.[7]

According to Hermann Wallich, he and Georg Siemens complemented each other well, although Siemens remained the dominant figure. Years later, Wallich looked back on the nature of their collaboration:

> Frequently Siemens and I disagreed over one or other of the audacious proposals he came up with. More often than not, however, sometimes even against my better judgment, I let him have his way, an unconscious instinct telling me: "You can't allow this fellow to go. He is an enormous asset to the bank and possesses qualities you yourself lack."
>
> In moments of crisis, on the other hand, my experience and conservative principles prevailed. Siemens called me the bank's conscience. Anyhow, a large firm like ours had room for more than one man of talent. In good times, possibly my younger colleague's fire was more useful than my own perhaps over-cautious, if not downright old-fashioned, style of management.[8]

Wallich was not exaggerating when he described some of Siemens's proposals as "audacious." Even as the supervisory board approved new Deutsche Bank branches in Germany's two leading trading centers, Bremen (1871) and Hamburg (1872), Siemens decided to establish branches in Shanghai and Yokohama as well. These cities looked especially attractive because the directors at the Deutsche Bank anticipated enormous growth in German trade with the Far East. At about the same time, the bank also secured representation in New York, Paris, and, most important, London.[9]

These branches were set up to facilitate international trade transactions. Because of the long delays involved in shipping a product from one nation to another, and then actually selling the product, exporters and importers looked to banks to tide them over. But bankers wished to extend such credit only when they were sufficiently familiar with the specific transactions and the parties involved. This was an important reason for locating branches in major trading centers. In addition, the business of trade financing, which paid high commissions, normally went to institutions that were on site and had connections to trading centers worldwide.

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In the late 1860s and early 1870s, many Germans thought the idea of challenging the British in trade finance was foolhardy. About a month before the Deutsche Bank's founding, a German newspaper had predicted that the project would be a "splendid fiasco."[10] As it turned out, the bank's experiment with branches in the Far East did in fact fail. With losses mounting in Shanghai and Yokohama, Siemens was forced to close both branches in 1874.

The bank's annual report attributed this outcome to Germany's adoption of a gold standard in 1873. As the German Mark appreciated relative to Far East currencies, the branches' foreign-currency remittances and assets lost value, and the volume of German exports declined.[11] Some outside observers, on the other hand, thought that the bank's problems were the consequence of an unworkable business strategy. One newspaper asserted that the bank's closing of its branches in the Far East constituted an admission of failure and that the "question of the liquidation of the bank is now being seriously considered."[12]

Entry into Domestic Banking

Siemens and Wallich were not deterred, however. From the beginning, Siemens had insisted that a healthy international business had to be built on a solid domestic foundation.[13] The core of the Deutsche Bank's domestic business was the so-called "current account," a vehicle for managing short-term deposits and short-term loans for firms. Industrial enterprises that maintained current accounts could deposit excess cash at low rates of interest and withdraw the funds whenever necessary. The current account also provided them with a flexible line of credit, allowing them to overdraw the account up to a specified limit. Naturally, the rate of interest on loans was higher than on deposits. Both deposits and loans were short-term. Their purpose was to stabilize normal fluctuations in a firm's liquidity position. A company might use its line of credit to meet its payroll, for example, and then pay back the loan and build a deposit after receiving payment for a large sale. The current account tended to facilitate close ties between banks and their business customers.[14]

Although extremely important, the current-account business was not the only domestic opportunity open to the Deutsche Bank, particularly during the economic boom of 1870-73. French reparations after the Franco-Prussian war totaled five billion francs, or three times Germany's money supply. This extraordinary injection of liquidity into the German economy pushed down interest rates and sparked an economic expansion based on easy credit. At the same time, changes in German corporation law reduced restrictions on the establishment of joint-stock companies. Some 843 public companies were founded between 1871 and 1873, including 103 joint-stock banks. In the 44 years prior to 1870, only 397 new joint-stock companies had been founded.[15]

Many German banks got caught up in the excitement, but the Deutsche Bank steered its funds in a conservative direction. In Hermann Wallich's words, "company 'promotions' [i.e., the launching of new companies] of every conceivable kind and color became all the rage. To my untutored mind this unsavory business, more akin to blood sports, was utterly repugnant, and I would have none of it."[16] As scores of banks were forced into liquidation following a financial collapse in 1873, the directors of the Deutsche Bank saw a golden opportunity. Between 1873 and 1876, they took over five failing banks, including two large ones, and this expansion, said Wallich, "put us into the big league in a single stroke." By 1876, the Deutsche Bank held more assets than any other bank in Germany.[17]

Increasingly after 1875, Georg Siemens worked to expand the bank's domestic role by moving into new product lines. One of the most important was the acceptance of individuals' short-term deposits, unconnected to any current account.[18] Other banks had shunned this business because they worried about getting caught without sufficient funds. Whereas current accounts tended to be fairly predictable (subject to the standard rhythms of business operations), individual depositors

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sometimes acted erratically. If a bank's depositors wanted their money back when all or most of the funds were loaned out, the bank could easily fail. German banks, therefore, typically relied on their own paid-in capital and their current-account liabilities to make loans. But Siemens was not one to follow the crowd. Through Wallich, he knew that British banks carried on a successful deposit business. Moreover, the establishment of the German central bank (Reichsbank) in 1876 reassured Siemens that traditional ideas about liquidity constraints in German banking were now obsolete. One of the hallmarks of the Reichsbank was its willingness to "rediscount" liberally. This meant that the Deutsche Bank could make a short-term loan (also known as a discount) to a customer and then sell (or rediscount) the loan to the Reichsbank for cash, if necessary.[a] Generous Reichsbank rediscounting thus guaranteed the viability of a bank taking short-term deposits and then lending them out.[19]

The Deutsche Bank accepted short-term deposits for fixed periods of time (somewhat like today's certificates of deposit). Depositors, who were normally wealthy individuals, could place their funds with the bank for one day, two weeks, one month, or three months. The interest rate that the bank paid was generally between two and three percent, and it rose with the duration of the deposit. The bank's involvement in the deposit business grew rapidly through the 1870s. By 1880, the bank managed more than twice as many deposit accounts as current accounts, and by 1900 almost eight times as many (see **Exhibit 2**). Still, the total value of current accounts always exceeded that of deposits because, on average, deposit accounts were much smaller than current accounts.[20]

Forays into Investment Banking

As Siemens was moving the Deutsche Bank into the deposit business and enlarging the institution through the acquisition of failed banks in the mid-1870s, he began contemplating the merits of expanding into investment banking. One group of bank shareholders opposed this idea, proposing instead that the bank's share capital be reduced by one-third. But Siemens and Wallich were not swayed. Warning that a reduction of capital would constitute "the biggest policy mistake it would be possible to make," they insisted on piloting the bank into the unfamiliar waters of investment banking.[21] In doing so, they transformed the enterprise into a true universal bank, which serviced both the short-term and long-term financing needs of its customers.

For the Deutsche Bank, long-term financing involved the flotation of stocks and bonds and, at times, the direct purchase of such securities from industrial firms. The bank made almost no long-term loans.[22] By the time the Deutsche Bank was founded in 1870, German banks already had a good deal of experience placing government bonds. But the first industrial bond in Germany was not issued until 1874. The issuer was the steel firm of Friedrich Krupp, which raised 30 million marks ($7.1 million) at a six percent rate of interest. Although the Deutsche Bank did not handle this flotation, five years later it underwrote a new debt issue for Krupp worth 22.5 million marks at an interest rate of five percent.[23]

Placing a new security issue was a delicate operation. Because most industrial firms did not go to the capital market often, they were inexperienced in finding enough buyers at a given price. Potential investors might prove unwilling to buy a new security because they felt insufficiently familiar with

[a] Short-term loans were often referred to as discounts because banks would buy commercial paper from firms "at a discount." In discounting commercial paper, a bank would purchase a firm's promise to pay an amount of money at some specified time in the future. For example, a bank might buy a firm's promise to pay 100 marks one month later. If the bank bought the firm's promise for 99 marks, then the discount would be one mark and the discount rate (or interest rate) would be approximately one percent per month. Performing this discount is equivalent to the bank lending the firm 100 marks for one month at an interest rate of about one percent per month. If the bank turned around and sold the commercial paper (that is, the firm's promise to pay 100 marks) to the Reichsbank for 98 marks, then the bank would have "rediscounted" the paper at the Reichsbank.

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the issuing firm. Or they might be unaware of the flotation because of inadequate advertising. In either case, the price of the new security might end up being lower than the earnings potential of the issuing firm would warrant.

Industrial firms therefore looked to specialists such as the Deutsche Bank for assistance. The bank would advise a firm on how to structure a deal: what type of security to issue, in what quantity, and at what price. The bank would advertise the new issue and prepare the necessary information for potential investors. Ultimately, it would bear most of the risk by underwriting the whole operation. That is, the bank would pay the firm a fixed price for the entire issue in advance and thus accept the responsibility for finding secondary buyers. Because underwriting was a risky business, it was also a lucrative one. Underwriting new issues brought in high fees, and underwriting shares (which were considered riskier than bonds) brought in the highest fees of all.

The Deutsche Bank managed placements of industrial securities for some of the most prominent names in German business. Besides the Krupp bond placement already mentioned, the bank underwrote a share issue for BASF (Badische Anilin & Soda-Fabrik) in 1886. The following year it helped to float new shares for the electrical giant AEG (Allgemeine Electricitäts-Gesellschaft). In the late 1890s it helped to convert Siemens & Halske from a limited partnership into a joint-stock company.[24] Often the Deutsche Bank preferred to work in concert with other banks, mainly to minimize underwriting risks. In 1885, it headed a consortium that placed the shares of Friedrich Bayer & Co. on the Berlin Stock Exchange. Similarly, the AEG flotation of 1887 was managed by a consortium led jointly by the Deutsche Bank and Delbrück Leo & Co. Such consortia were often referred to as syndicates, and they were typically led by big institutions.[25]

In its 1890 annual report, the bank presented a list of new syndicates in which it was participating. The list detailed twelve debt issues but only two share issues. More than half of the debt issues appear to be government bonds, including the German Imperial Loan, municipal loans to numerous German cities, the Swiss Federal Loan, and the Roumanian Gold Loan. There were also syndicates for debt-financing the Central Pacific Railroad in the United States, the Italian Railway, and the Ottoman Railway Company. The two share issues listed were for AEG and a Cologne gunpowder mill. **Exhibit 3** provides an overview of the Deutsche Bank's investment banking business. Significantly, industrial stock and bond issues comprised only a small fraction of total new issues. Placements for governments and railroads, many of which were publicly owned, dominate the list.

In its investment-banking role, the Deutsche Bank served mainly as an intermediary between its clients and the capital market. It was not uncommon, however, for the bank to hold on to some part of a new issue itself, and it thereby built up a substantial inventory of stocks and bonds. In some cases, the bank held such securities only because it had been unable to place an entire issue at the desired price. But often it wanted to hold a stake in the enterprise it was financing. In 1890, for example, when the Deutsche Bank floated the steel-tubing company Mannesmann with a starting capital of 35 million marks ($8.3 million), it chose to retain in its own portfolio shares amounting to 3.5 million marks.[26]

Because it was involved in both the short-term and long-term financing of its industrial customers, the Deutsche Bank tended to establish close relationships with them. After managing the incorporation of Siemens & Halske in 1897, the Deutsche Bank placed one of its own managing directors on the firm's supervisory board. The bank also obtained several million marks' worth of Siemens & Halske shares, and it positioned an ally of the bank as spokesman of the firm's managing board.

The Deutsche Bank subsequently served as the "house bank" for Siemens & Halske. This meant that Siemens & Halske not only maintained its current account at the Deutsche Bank but also relied

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on it to place new issues of debt and equity. One problem here was that the bank already had close ties to Siemens & Halske's chief competitor, AEG. Forced to choose between the two so as to avoid conflicts of interest, the Deutsche Bank chose Siemens & Halske. Family loyalty through the Siemens connection no doubt played a role, but the decision could also be justified on business grounds. Annual sales of Siemens & Halske were one-third larger than those of AEG in 1896. In any event, Georg Siemens resigned as the chairman of AEG's supervisory board, and allowed another institution to replace the Deutsche Bank as AEG's house bank.[27]

Besides owning equity in many of its corporate customers and placing bank officials on their supervisory boards, the Deutsche Bank also influenced its customers' development through the control of proxy voting rights. In Germany, owners of stock typically deposited the share certificates at their banks. Increasingly after 1900, the bank not only provided a safe place for customers to store their certificates but became the voting proxy for their deposited shares. Often the Deutsche Bank controlled big blocks of votes at the annual meetings of Germany's most powerful industrial companies, both through its own shareholdings and its proxies. The practice of proxy voting by banks was not followed in Britain, the United States, or Japan.

Because it combined so many different banking functions, and on such an enormous scale, the Deutsche Bank became known as one of Germany's "great banks" (Großbanken). As of 1913, there were eight great banks headquartered in Berlin, with total assets of 7.8 billion marks ($1.9 billion). Germany's 352 privately owned banks had assets of 20.4 billion marks, and the assets of the entire German banking system (about 22,000 publicly and privately owned banks and credit unions, many of them tiny) totaled 50 billion marks.[28] Against this backdrop, the Deutsche Bank's assets of 2.2 billion marks in 1913 stand out as extraordinary.[b] It held 10.8 percent of private bank assets and 4.4 percent of the assets of all banking institutions in Germany.[29]

Already by the turn of the century, the Deutsche Bank had been called "Germany's most powerful institution." In 1909, one of the bank's managing directors claimed that the Deutsche Bank was the biggest bank not only in Germany but in the world.[30] Although Georg Siemens had ended his reign as spokesman of the managing board in 1900 (only one year before his death), the bank continued on a strong upward trajectory until the First World War.

War and the Consequences of Defeat

The most immediate impact of the war on the Deutsche Bank was that the government's demand for loans expanded enormously. Although the bank permitted only a modest increase in its own holdings of government debt, its involvement in placing government securities with the public grew dramatically. All told, the Deutsche Bank floated almost 6.5 billion marks worth of wartime loans, which represented a large portion of its entire investment-banking business. According to one historian, "the private business of the bank in commercial bills and stock market transactions had virtually disappeared" by the end of the war.[31]

The early success of the German army created opportunities for bank expansion, particularly into eastern Europe. But these opportunities turned out to be short-lived. By 1918 the German army was in disarray and its leaders were suing for peace. The English-language version of the Deutsche Bank's

[b] The Gross National Product for Germany in 1913 has been estimated at 52.4 billion marks [Walther G. Hoffmann, Das Wachstum der Deutschen Wirtschaft Seit der Mitte des 19. Jahrhunderts (Berlin: Springer-Verlag, 1965), table 248 (p. 826).] Although it is inappropriate directly to compare assets (a stock of wealth) with income (an annual flow of funds), the GNP number (which is equivalent to total national income) offers some sense of the magnitudes involved. In 1913, 52.4 billion marks was worth $12.5 billion, or about $200 billion in today's dollars after correcting for inflation.

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annual report for 1918 shows management's astonishment at the very severe Allied terms for a peace settlement: "The German nation in any case has not deserved to have imposed upon it terms of peace destroying the innermost roots of its national and material existence."[32]

By 1919, the country was falling into chaos. The Kaiser had abdicated on November 9, 1918, and the war had ended two days later. That winter, communists launched a revolution against the new republican government. Oscar Wassermann, one of the Deutsche Bank's managing directors (and soon to become its top executive), reported to a prominent Hamburg banker in January 1919 that these were "rather unsettled times, but one gets used to the fact that, when one goes to the bank or comes out of it, a bullet occasionally strikes very near by, and that one's ears are mistreated by infantry fire, machine guns, and periodically also by mine throwers and artillery."[33]

The government quickly put down the communist revolution, but unrest on both the political left and the right continued. In April of 1919, many of the Deutsche Bank's own workers went out on strike, and the strike quickly turned violent.[34] Eleven months later, Wolfgang Kapp initiated the so-called Kapp Putsch and briefly took control of the government in Berlin. Kapp, a right-wing nationalist, himself had served on the Deutsche Bank's supervisory board until the first day of the coup (March 13, 1920), when he was dismissed by the bank. Although the Kapp Putsch quickly failed, no one associated with it was ever punished.[35]

Even apart from the social and political turmoil, the strain of the war years and Germany's defeat left the Deutsche Bank in a severely weakened condition. As the bank's 1919 annual report put it, "The war has upset the regular course of our economic life and shaken German trade and industry to their foundations. Through paralyzing the activity of our foreign branches it also severely interfered with our Bank's organization."[36]

The bank's foreign operations proved especially vulnerable. For example, one of the bank's prize foreign investments from the late nineteenth century, the Baghdad Railway, nearly collapsed during the war. The railway had been intended to serve both as an economic lifeline linking Europe and the Middle East and as a symbol of German imperial strength. Under wartime conditions, however, the Deutsche Bank had found it hard to maintain the operation on a business footing. Not only did the railroad take on new strategic significance during the war, but the Turkish government, which was allied with Germany, became ever more impervious to bank pressure. The bank thus continually looked to the German Reich for guarantees. Finally, in July 1917, the bank prevailed on the Reich to take over a majority of the shares of the Baghdad Railway Company and to buy 100 million marks in Railway bonds.[37]

The bank's international position deteriorated even further once the war ended. Many of its most valuable foreign assets disappeared. Given Germany's military defeat, there was no opportunity for appeal. These foreign assets were gone, and the bank had no choice but to reconstruct its balance sheet accordingly.[38]

Hyperinflation and "the Death of Money"

The postwar crisis reached a climax in 1923. Since the end of the war, prices in Germany had been rising rapidly. The Deutsche Bank's annual reports complained regularly about the "depreciation of money." Whereas in June 1918 it had cost about 8 marks to buy one American dollar, in December 1921 it cost 192 marks. Twelve months after that the price was 7,600 marks. In December 1923, the exchange rate reached the incomprehensible figure of 4.2 trillion marks to the dollar. Domestic prices followed a similar path. At the end of 1923, wholesale prices in Germany were 656 billion times higher than in 1918.[39]

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The hyperinflation resulted mainly from the German government's simultaneous policies of stimulating its economy to reduce unemployment and resisting the huge reparations burden imposed by the Allies after World War I. As the government printed ever greater numbers of bonds, the Reichsbank printed ever more money in order to buy them. The government used this money for such purposes as paying idle German coal workers in the Ruhr region who were "passively resisting" the French occupation force that was there to collect in-kind reparations. Prices skyrocketed and the exchange rate collapsed because the money supply was growing at an uncontrollable rate. One analyst described the result as "the death of money."[40]

The impact of the 1922–23 crisis on the Deutsche Bank was immense. The economic environment was so chaotic that planning for the future proved almost impossible. Equally troubling, the bank was drowning in administrative work. The 1922 report commented on the enormous "strain of unproductive work on everyone concerned."[41] As prices surged, the bank had to process transactions immediately or face huge penalties. It was vital that the bank avoid holding cash for any length of time, and yet it had to hold enough to pay depositors who were clamoring for their funds. Borrowers recognized that they could pay back their debts in vastly depreciated currency, so credit demand was increasing "geometrically from day to day," in the words of one managing director. In August 1922, the bank began issuing orders to its branches to restrict the availability of credit. About a year later, it began insisting on "valorized" credits, to be repaid on the basis of real values such as foreign exchange or commodities, as opposed to mere paper marks. By September of 1923, the value of money was changing literally by the hour.[42]

To handle this administrative nightmare, the Deutsche Bank hired thousands of new employees. Between 1913 and the end of 1918, when prices in Germany roughly doubled, the bank's staff increased from 6,638 to 13,529, and the number of accounts increased from 290,000 to 513,000. The number of employees reached 17,800 in 1920 (739,000 accounts) and 26,286 in 1922 (804,000 accounts). Deutsche Bank personnel peaked at 37,000 near the end of 1923, when the great inflation was at its height. Mainly as a result of these increases in staff, the proportion of gross profits devoted to operating costs increased from 57 percent in 1920 to 76.5 percent in 1923. In 1913, by comparison, the proportion had been just 38.1 percent.[43]

By 1924, when the German currency finally stabilized as a result of tough new government policies, the Deutsche Bank's staff was thoroughly exhausted. The bank's balance sheet and its business standing had been severely damaged as well. Because of the enormous cost of servicing small deposits, the bank had been forced to reduce its total number of accounts from 804,000 in 1922 to 281,000 in 1924. Meanwhile, its underwriting business had nearly collapsed as industry increasingly found alternative (especially foreign) sources of investment funds. The bank's capital base also appears to have eroded substantially. According to official currency conversion rates, the Deutsche Bank reduced its capital by 25 percent and its reserves by 43 percent from 1913 to the end of the inflation in 1924. In the meantime, the Deutsche Bank slipped from being the largest corporation in Germany in 1913 to being the ninth largest in 1926 (behind eight industrial firms). In the words of one historian, "It almost seemed as if the great age of the German universal banks had come to an end."[44]

Picking Up the Pieces

Much as it had done in the mid-1870s, the Deutsche Bank implicitly addressed the ongoing crisis of 1914–1923 with a strategy of expansion through acquisition. Beginning with only 15 branches in 1913, the bank grew to have 108 branches by 1919 and 142 by 1924. The additions came mainly from mergers with smaller banks that had numerous branches of their own. In most cases, the Deutsche Bank began the acquisition process by purchasing a minority share of the target bank's stock, thereby

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establishing a community of interest. Merger often followed, but only after the banks got to know one another.

The Deutsche Bank continued its expansion through the 1920s. It used the stepping-stone strategy to acquire three important regional credit banks in 1924, 1925, and 1929. Significantly, the bank reduced its staff even as it enlarged its branch network through these acquisitions. The number of bank personnel fell from the peak of 37,000 in 1923 to just 13,261 at the beginning of 1929.[45]

Particularly through the period of high inflation during and after World War I, takeovers proved attractive to the Deutsche Bank because they involved the acquisition of real assets. Unlike paper money, which the Reichsbank was printing at an unprecedented pace, assets such as buildings, land, and brand equity held their value over time. Even more important, the directors of the bank believed that larger size would translate into increased strength and stability. Beginning in 1908 and culminating in 1924, the deregulation of savings banks in Germany created several thousand aggressive new competitors in the credit markets. This competition became particularly intense in the mid-1920s. Meanwhile, another reason for the Deutsche Bank's continued expansion was that it faced increasing competition from abroad, as foreign banks began lending directly to German firms. By 1927, short-term lending by German credit banks to German non-bank firms was only 37 percent greater than that by foreign banks.[46]

Of course, the logic of expansion through consolidation was not limited to banking. Through the war and postwar years, integration within the industrial sector proceeded even faster than within the financial sector. This movement led to the creation of such giants as I.G. Farben in chemicals and the Vereinigte Stahlwerke (United Steel Works), both in 1926.[47] In general, the Deutsche Bank strongly endorsed consolidation in industry as well as banking. Oscar Wassermann, the spokesman of the bank's managing board from 1923 to 1933, was a vigorous advocate of rationalization in business.[48] Wassermann believed that it was imperative in the 1920s for bankers to resume their role as coordinators of business activity within Germany. The Deutsche Bank performed that role on numerous occasions. In 1926, it orchestrated the merger of Aero Lloyd, Junkers, and numerous smaller firms into a powerful single entity, Lufthansa. Significantly, one of the Deutsche Bank's managing directors assumed the chairmanship of Lufthansa's supervisory board.[49]

Within the banking industry, the greatest merger of all came in October 1929, when the Deutsche Bank itself fused with its biggest rival, the Disconto-Gesellschaft, and four smaller banks. According to Oscar Schlitter of the Deutsche Bank's managing board, this huge merger was designed to counterbalance the rapid consolidation taking place in industry. Otherwise, the two big banks risked being dwarfed by the rapidly emerging industrial giants. "In order to meet the challenge of industry," he declared in anticipation of the merger, "it is necessary to create a banking block of such dimensions that its placement capacity will dominate the domestic market and that underbidding of opposition groups which go beyond the reasonable would be pointless." The new institution, Schlitter maintained, would "be in a position to develop a force of such magnitude that it could not be circumvented in the securities business and in the reconstruction of the German economy at home and abroad."[50]

The new institution was named the Deutsche Bank und Disconto-Gesellschaft. Because the new name was so cumbersome, the nickname "Dedi Bank" arose, much to the chagrin of management. Altogether, the Dedi Bank held 800,000 accounts worth almost RM 5 billion ($1.2 billion). It operated 289 branches and 77 urban sub-branches all over Germany. Its total assets were about 70 percent greater than those of the Deutsche Bank alone, and the increase in human capital was at least as great. In addition to the Deutsche Bank's own capable executives, the Dedi Bank inherited the financial genius of Georg Solmssen from the Disconto-Gesellschaft.[51] Solmssen would later rise to become

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spokesman of the bank's managing board, and he would be sorely tested during the period of Nazi ascendance in 1933.

Economic, Political, and Moral Collapse

After the great merger of 1929, the Deutsche Bank und Disconto-Gesellschaft targeted savings deposits as a desirable new market. Most savings accounts were held by individuals who deposited small amounts of money. Customers earned interest and could withdraw their money with some notice, though not immediately on demand. Until the late 1920s, savings banks had dominated this market segment. But as the savings banks became increasingly involved in the short-term credit markets as a result of deregulation, credit banks such as the Deutsche Bank und Disconto-Gesellschaft decided it was time to invade their turf. The Dedi Bank therefore introduced savings certificates that would pay interest if held for at least a year, and began marketing them aggressively.[52]

Another reason that the Deutsche Bank und Disconto-Gesellschaft began to seek savings deposits was that it needed the funds. Foreign deposits, which had flooded into Germany in the mid-1920s, were now rapidly flowing out. In 1928, foreign deposits at all German credit banks had comprised 43 percent of total deposits, as compared to 20 percent in 1925. The enormous inflow of foreign funds had seemed to indicate a high level of international confidence in the German economy. But after the Wall Street crash of late 1929, foreign deposits began to leave Germany. The ratio of foreign to total deposits at credit banks fell to 34 percent in 1930 and to 18 percent in 1931. This outflow was likely exacerbated by political events. In September 1930, Adolf Hitler's National Socialist (Nazi) Party made big gains in the parliamentary elections, winning 107 seats, 20 percent of the total. Nine months later, Berlin issued its "reparations declaration," announcing that the German people would not tolerate much more in the way of reparations payments.[53]

Closely associated with these financial and political developments was the rapid deterioration of the German economy, which had fallen victim to the deepening worldwide depression. Real Gross National Product stopped rising after 1928 and began falling sharply in 1931. Particularly troubling for Germany was the collapse in world trade, which had been triggered by the United States' imposition of extremely high tariffs in the middle of 1930. By 1931, the volume of German exports had fallen by 14 percent as compared to the 1928 level, and over the next year exports fell by an additional 31 percent.[54]

At the Deutsche Bank und Disconto-Gesellschaft, deposits fell from RM 4.7 billion in 1929 to RM 3.0 billion in 1931.[55] At the same time, many of the firms to which it lent money were themselves at risk of failing. In response to these ominous developments, the Deutsche Bank und Disconto-Gesellschaft wrote down its share capital and reserves from RM 445 million in 1929 to RM 169.2 million in 1931, and cut its dividends from 10 percent to zero.[56]

The German banking system broke down entirely in the summer of 1931. By July, one of Germany's great banks, the DANAT-Bank, was on the verge of collapse because some of its big loans had gone bad. The Reichsbank, which had traditionally injected liquidity into the banking system whenever necessary, was no longer in a position to do so. Constrained by international agreements associated with war reparations, the Reichsbank was desperately trying to maintain its own foreign-exchange reserves and could be of little help to the DANAT-Bank.

On July 8, one of the DANAT-Bank's top officials, Jakob Goldschmidt, went to talk to Oscar Wassermann about a possible merger with the Deutsche Bank und Disconto-Gesellschaft. But

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Wassermann resisted. He had never approved of Goldschmidt's bold banking style, and he worried that such a merger was too risky a proposition. Without substantial help from either public or private sources, the DANAT-Bank was finally forced to suspend payments on July 13. The following day, the government declared a general bank holiday, which lasted until August 5. Government and bank officials feared that without such a holiday, bank runs could break out all across the country and destroy the entire banking system. Like all banking systems, Germany's was built on little more than faith, and by the summer of 1931, faith seemed to have disappeared.[57]

After declaring the bank holiday, the government began moving aggressively to stabilize the financial system. Currency controls were imposed on July 15 and progressively tightened thereafter. Perhaps most important, the Reich injected cash directly into the system by purchasing equity in the banks. The DANAT-Bank was merged with another troubled bank, the Dresdner Bank, and the government ended up taking over 91 percent of the merged institution's share capital. The government even acquired 35 percent of the shares of the Deutsche Bank und Disconto-Gesellschaft, which remained one of the nation's strongest banks.[58]

During the crisis of 1931 and soon thereafter, many critics attacked the banks and even the banking system itself. The State Secretary made reference to "a crisis of confidence in capitalism" and argued that the "banking system is overly concentrated." The Finance Minister even contemplated separating commercial from investment banking, as had long been the practice in Britain. Georg Solmssen of the Deutsche Bank und Disconto-Gesellschaft answered with a powerful defense of universal banking. Dismissing the crisis as an "act of God," he insisted, "This unification of financing and deposit banking is a system of which one can say without being arrogant that it built Germany's economy. The hallmark of this system, as it exists today and for whose retention I would like to work for and fight for in the interest of the economy, is its elasticity."[59]

Although deposits at the credit banks continued to fall through 1932, mostly because of continued foreign withdrawals, they finally stabilized in 1933.[60] The banking system appeared to be back on its feet. In the meantime, however, the economy had continued to deteriorate and the political landscape had been severely scarred, as if struck by a fire bomb.

By 1932, Germany's unemployment rate reached 17 percent. In the national elections of July, the Nazi Party won 38 percent of all seats in the Reichstag (parliament), more than any other political party. In the November presidential election, Adolf Hitler challenged the incumbent, Paul von Hindenburg, an 80-year-old former general and war hero. Hitler lost the election, but he received 30 percent of the popular vote. Hindenburg now felt that he had no choice but to appoint Hitler Chancellor of Germany. After the Reichstag building mysteriously went up in flames in February of 1933, Hitler declared emergency powers. He formally established himself as dictator of Germany in March by appropriating the power to make laws without the approval of the Reichstag. The Nazi seizure of power was nearly complete.

Through 1933, the German economy began growing again and was soon surging ahead. The Deutsche Bank und Disconto-Gesellschaft said in its 1933 annual report, "The first year of National Socialist leadership in the Reich saw a definite change for the better in Germany's economic life. This was the result of energetic governmental measures in regard to employment and economic policy together with reawakened enterprise, based on a revival of confidence due to the new political constellation."[61]

The bank's directors were probably sincere in their praise of the new regime's economic policies. But the Nazi impact on the bank, and particularly on its managing board, went far beyond the upturn in economic conditions. Because the spokesman of the managing board, Oscar Wassermann, was Jewish, pressure quickly mounted for his resignation. Significantly, suggestions for his removal came

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directly from the Reichsbank president, Hjalmar Schacht. The justification for action against Wassermann within the Dedi Bank itself was the allegation that he had faltered during the banking crisis of 1931. "Whether Herr Wassermann was a Jew or a Christian," an internal bank memorandum asserted, "had nothing to do with all this."[62] Of course, nothing could have been further from the truth. Wassermann was targeted only because he was a Jew.

With political pressure intensifying, Wassermann agreed to leave the Deutsche Bank by the end of 1933. Despite this extraordinary concession on his part, the bank's management unexpectedly announced his resignation on May 20. Wassermann had served on the managing board for twenty-one years, since 1912, and he had run the bank as its spokesman since 1923. But now, just four months after Hitler took power, Wassermann was gone. The other Jewish member of the bank's managing board, Theodor Frank, also resigned under pressure. Promises were made that both men would later be moved up to the supervisory board, but these promises were never kept. Wassermann died the following year at the age of 65, presumably of natural causes. Frank moved to Zurich, where he died in 1953.[63]

The man who took over as spokesman of the managing board in 1933 was Georg Solmssen. Although himself born to Jewish parents, Solmssen was not an immediate target in the spring of 1933 because he had been baptized as a baby. Solmssen was disgusted by his colleagues' willingness to appease Nazi antisemitism, and he seems to have recognized quite early that his own days at the bank were numbered. On April 9, 1933, Solmssen wrote a stunning letter to the chairman of the bank's supervisory board. It is worth quoting at some length here:

> The exclusion of Jews from state service, which has now been accomplished through legislation, raises the question of what consequences this measure—which was accepted as self-evident by the educated classes—will bring for the private sector. I fear that we are only at the beginning of a conscious and planned development which is aimed at the indiscriminate economic and moral destruction of all members of the Jewish race living in Germany. The complete passivity of the classes which do not belong to the National Socialist Party, the lack of any feeling of solidarity on the part of those who have up to now worked in business shoulder to shoulder with Jewish colleagues, the ever more evident pressure to draw personal advantages from the free positions created by the purges, the silence about the shame and humiliation imposed on those who, although innocent, see their honour and existence destroyed from one day to the next: all this is evidence of a position so hopeless that it would be wrong not to confront facts straightforwardly, or to make them appear harmless. In any case, those affected have apparently been abandoned by those who were professionally close to them, and they have the right to think of themselves. They should no longer let the enterprise to which they have devoted their lives determine their actions—unless that enterprise treats them with the same loyalty that it expected of them. Among our colleagues too, the question of solidarity has been raised. My impression was that this suggestion met only a lukewarm response in the managing board . . . and that if it were to be realized it would take the form of a gesture rather than complete resistance, and as a result would be doomed to failure. I recognize that in the decisive deliberations, differences will be made between different members of the managing board who happen to be on the list of proscription. But I have the feeling that, although I am viewed as someone whose activity is thought of positively, and although I may be honored as the representative of a now seventy-year-long tradition, I too will be abandoned once my inclusion in a "cleansing action" is demanded by the appropriate authorities. I must be clear about this. . . .[64]

By the end of that fateful year, Georg Solmssen had been removed as spokesman of the managing board. He was subsequently moved to the bank's supervisory board, on which he officially remained

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until 1938. In the meantime, he had departed for Switzerland to find safe haven from the Nazis. He died there in 1957.[65]

Besides the question of Jewish personnel, the bank's directors also had to deal with many other problems and challenges that emerged as a result of the Nazi takeover. For one thing, they had to decide how best to establish and maintain connections to the Nazi Party. Early in 1933, two bank employees who were members of the National Socialist Factory Cell Organization were appointed to the supervisory board. In addition, a former managing-board member who had close ties to the Nazi Party, Emil Georg von Stauss, was elevated to the powerful "Working Committee" of the supervisory board. This development would not have been unusual except that Stauss previously had been regarded as a rather careless adventurer, and the Working Committee had been created to prevent people like him from gaining power. Ironically, the supervisory board member who had created the Working Committee and whom Stauss effectively replaced in 1933 was Paul Silverberg, a Jew who fled Germany that same year.

Overall, Nazi officials were never very comfortable with the Deutsche Bank (which changed its name back from the Deutsche Bank und Disconto-Gesellschaft in 1937). Since four Catholics sat on the institution's managing board, some Nazi Party members derisively labeled it the "Catholic bank." No Nazi Party member was appointed to the bank's board of managing directors until 1938. After that, only two more were appointed—both in 1943, immediately following Stauss's death.[66]

Meanwhile, the nature of the Deutsche Bank's business was radically transformed. Its holdings of government bonds increased from about three percent of assets in 1929 to 11 percent in 1937 and then to 70 percent in 1944. The Nazis imposed strict capital-market controls, virtually prohibiting the flotation of private securities. The purpose of these policies was to reduce the government's cost of borrowing. Similarly, the Nazis encouraged banks to transform private deposits directly into state loans, without going through the capital market at all. As one economic historian has noted, this "so-called noiseless financing . . . thus [eliminated] the public signal of a market valuation of Reich debt."[67]

In December 1938, one month after a night of anti-Jewish violence known as Kristallnacht,[68] the Nazis promulgated new laws restricting the bank accounts of all Jews. Jewish account holders were permitted to withdraw small amounts each month to cover necessities, but additional withdrawals had to be approved by the state. The Deutsche Bank was thus forced to keep meticulous records on its Jewish clients and to seek approval from state authorities for almost every transaction. Whenever the bank's Jewish customers left the country, either because they were deported to concentration camps or because they succeeded in emigrating to a friendly country, the state immediately ordered the bank to turn over their assets. Under recently enacted German law, the state had the right to seize the assets of any Jewish person who left the country. The Deutsche Bank often delayed the process by arguing that it could not turn over a client's assets until directly instructed to do so by the Gestapo. Many of the bank's surviving files on Jewish customers end with just such an order, properly signed by the Gestapo.[69]

The bank also became heavily involved in the so-called "Aryanization" of property, that is, the sale of Jewish property to non-Jews. In most cases, Jewish sellers entered into such deals only because of the implicit threat of future state expropriation. In July 1943, a member of the Deutsche Bank's supervisory board who ran a subsidiary bank in occupied Czechoslovakia complained bitterly in a letter about the devastating impact of Aryanization. He asserted that,

> the extension of the German business [in Czecholsavkia] depended entirely on the Aryanization of previously Jewish businesses, which, unfortunately, have been taken over in many cases by persons who have only political recommendations, but who lack technical knowledge and especially the necessary financial resources. Even if the state is selling these

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> firms at drastically reduced prices, it is unavoidable that at first the loans will have the character of an equity stake. . . . [These] loans are especially risky. Consequently we will try to restrict our business. But we cannot avoid every risk since otherwise we would inevitably lose contact to the development of this business.[70]

As this passage suggests, Nazi antisemitism imposed not only a crushing moral burden, but substantial economic costs as well.

As the Nazi war machine rolled through Europe, the Deutsche Bank took control of the Czech bank just mentioned, and numerous other foreign banks as well. Indeed, the government pressed the big private banks to expand along with the Reich. Although the Deutsche Bank participated more reluctantly in such takeovers than did its major competitors, the Dresdner Bank and the Commerzbank, it nonetheless accepted the spoils of war.[71]

Meanwhile, the political challenges facing the bank intensified. The Nazi Party had long condemned the high degree of concentration in German banking and occasionally had singled out the Deutsche Bank for special criticism. Government officials finally began to take action against the bank in 1942 and 1943, ordering the closure of numerous branches and placing limits on the number of outside supervisory boards on which bank directors could serve. Under this pressure, the Deutsche Bank closed over 80 branches and significantly reduced its representation on other firms' supervisory boards. Political assaults on the bank occasionally turned violent. Two directors of Deutsche Bank branches were executed in 1943 for uttering "defeatist remarks." One was alleged to have referred to Hitler as a "swindler." The other supposedly had predicted that German fascism would ultimately fade away—that "National Socialism was in any case nothing more than a fart."[72]

In 1945, when the end finally did come for National Socialism, many at the Deutsche Bank worked furiously to shift their operations from Berlin much farther west to Hamburg. They feared that the Soviets, who were invading from the east, would destroy private banking in the parts of Germany they occupied. And indeed, when the Soviets took control of Berlin in May 1945, they quickly arrested many of the Deutsche Bank's remaining employees, blasted open the vaults, and shut down the institution.[73]

The Occupation

Unlike the Soviets, the three Western occupying powers—the Americans, British, and French—accepted the concept of a private banking system. The three differed, however, on how such a system should be structured in the defeated Germany. They disagreed not only about what type of banking structures would be most efficient, but also about the extent to which the old German banking system was implicated in Nazism and Nazi atrocities. As the Western Allies worked to resolve their own differences regarding occupation policy, the former directors of the Deutsche Bank understood that their personal and professional futures hung in the balance.

Once the three Western powers took control of their occupation zones, they removed the managing directors of the big banks from positions of power. The day-to-day operations of the Deutsche Bank were left to 12 executive vice-presidents, dubbed "the twelve apostles" by former managing board member Hermann J. Abs.[74] After conducting extensive investigations of the big German banks, the Financial Division of the American Occupation began transmitting its findings and recommendations in late 1946. "Investigation of the Deutsche Bank," it reported, "has revealed it to be an excessive concentration of economic power and a participant in the execution of the criminal policies of the Nazi regime in the economic field." The Division went on to recommend that the bank

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be liquidated, that those most responsible for its conduct be prosecuted as war criminals, and that the "leading officials" of the bank be prohibited from obtaining high-level economic or political positions in Germany.[c]

This, of course, was an enormous blow to the Deutsche Bank. But its chief rival, the Dresdner Bank, came in for even harsher condemnation. The Financial Division identified the Dresdner Bank itself as a war criminal, and recommended that nearly every member of its management structure, including the entire managing board and supervisory board, be indicted and tried.[75]

As it turned out, no "war crimes" case from the Deutsche Bank ever went to trial. However, one of the bank's leading figures, Hermann J. Abs, did end up spending three months in prison. In 1945, when the American occupation authorities wanted to try him as a war criminal, Abs was living in the British occupation zone. The British had worked with Abs before the war, and they thought highly of him. According to one British official, "The Americans wanted to be rough with him. They didn't appreciate his banking experience. They believed him to be a Nazi. But he wasn't a member of the party, so we gave him protection." Ultimately, however, the Americans prevailed. Especially after a court in Yugoslavia sentenced Abs, in absentia, to 10 years of hard labor, the Allies felt compelled to act. Abs was divested of his 45 supervisory board seats and subsequently interned. His cell mate was a member of the Dresdner Bank's managing board. Once released, Abs was dismissed from the Deutsche Bank at the instruction of British authorities, who themselves were under pressure from the Americans. Though subjected to a de-azification trial in Nuremberg, Abs was exonerated in February 1948. Less than a year later, he was appointed spokesman (chairman) of the newly created Reconstruction Loan Corporation, the postwar institution responsible for distributing Marshall Plan aid in Germany. By all appearances, Abs had now won the confidence not only of the British but also of the Americans in Germany and Washington.[76]

At about the same time that the Allies were settling Abs's fate, they were also contemplating the future of the German banking system. The biggest question concerned what to do with the three great banks—the Deutsche Bank, the Dresdner Bank, and the Commerzbank.

On May 6, 1947, the Americans announced a plan for bank decentralization in their zone. Each of the three great banks would be broken up into a number of smaller pieces. The various "successor" banks were actually former branch offices of the three parent banks, and their formal legal relationship to the parent banks remained unchanged. But the decentralization plan dictated that the successor banks act as independent enterprises, regardless of their legal status. Through this scheme, the Americans sought to provide a temporary solution to their concerns about excessive concentration. The French soon followed with a similar bank-decentralization plan for their zone. The British delayed announcing their own decentralization plan for nearly a year. In the end, the Deutsche Bank was broken into ten successor banks, spread across the three western zones.[77]

Although the delay by the British reflected some discomfort with the American approach, they nonetheless shared American suspicions about universal banking. In both the United States and Britain, commercial banking and investment banking were conducted separately by specialized institutions. Ever since the enactment of the Glass-Steagall Act in 1933, this separation had the force

[c] The Financial Division operated under the authority of the U.S. Treasury Department. Wrote one observer, "Since 1940/41, the Treasury Department under the leadership of Henry Morgenthau had attracted the most ardent opponents of National Socialism: Jews who had emigrated from Germany, intellectuals from the left, and devotees of Roosevelt's New Deal. . . . They took their task particularly seriously, which had been officially stated as dismantling the financial apparatus of Nazi expansion to ensure that Germany would never again threaten world peace." See Karl Heinz Roth, "Nachwort," in Finance Division--Financial Investigation Section, Office of Military Government for Germany, United States, Ermittlungen gegen die Deutsche Bank, 1946/1947 (Nördlingen: Franz Greno, 1985), pp. 531-532.

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of law in the United States; whereas in Britain the division was mainly a matter of tradition. Both the British and the Americans worried that combining commercial and investment banking under one roof created potential conflicts of interest.

The Americans worried in addition about substantial concentrations of financial power, concentrations which they regarded as economically inefficient and politically dangerous. As a result, they moved to restrict the German banks' control over proxy voting rights and to limit their representation on other firms' supervisory boards. In the words of Joseph M. Dodge, an American banker and advisor to the occupation authorities, such policies "would eliminate the excessive concentration of economic power in banking and destroy the intimate relationship between German banks and large corporations." These proposals, Dodge said, "are an integral part of our program to ensure that the German financial hierarchy will never again play any part in disturbing world peace."[78]

Though the Americans and British agreed that excessive scope in the banking industry was a problem, they disagreed sharply over the issue of scale. In Britain, each of the big commercial banks had a vast network of branches serving the entire country. But in the United States, branch banking was illegal in most states, and those branch networks that did exist never crossed state boundaries. The fear of large agglomerations of financial power and the preference for "unit banks" had deep roots in America's history.

Although British officials ultimately bowed to American pressure and announced a bank decentralization plan within their zone, they were never satisfied with the result. They may even have worked quietly to undermine it. Besides their philosophical preference for big banks with extensive branch networks, the British also believed that large German banks would be better able to honor pre-war debts to British creditors.[79]

Representatives of the German universal banks objected vehemently to the concept of decentralization. In a November 1949 report entitled "The Decentralization of the Great Banks," former directors of the Deutsche Bank insisted that there were substantial economies of scale in banking. Small banks, they argued, were unable to spread risks effectively. Nor could small banks finance large projects. "Large firms need large loans," said the report, "and large loans can only be issued by banks with a commensurate loan potential and capital basis." The same was asserted about investment banking services. Large banks were necessary in order to float large security issues. The report acknowledged that small banks might form consortia (syndicates) on a regular basis, but argued that such a solution was slow, clumsy, and costly. Another complaint outlined in the report was that because the successor banks had been forced to give up the Deutsche Bank name, they had lost an immense amount of goodwill. Without the Deutsche Bank name, the authors insisted, it was nearly impossible to attract foreign capital.[80] The report also highlighted the great advantages of branch banking. A bank with numerous branches could clear transactions quickly. It required smaller total reserves than did an equal number of unit banks. And it was well equipped for collecting essential information about creditors and debtors and about the overall economy.[81]

Another report drafted by representatives of the Deutsche Bank in December 1945 had taken an explicitly historical approach to the whole subject of universal banking in Germany. The authors explained that both the Deutsche Bank and the Disconto-Gesellschaft

> have since their foundation in 1870 and 1856 favored the financing of industry. The industrial development in Germany was necessarily followed by a corresponding development of the banks, inevitably leading to a branch-system as the local and regional banks could not fulfill the financial demands of a modern economy. It was only the branch-system that enabled [the banks] to balance [those] districts [with] a surplus of deposits [against those with a] demand

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> [for] credits. At the same time the branch-system facilitated the placing of instruments of financing, bonds and shares, and established the necessary partition of risks.
>
> Through this development the big banks especially Deutsche Bank came into close touch with most of the industrial companies. It was only a natural consequence that the industrials asked the leading bankers to join their Supervisory Boards after having obtained their financial advice for longer periods. The mutual relations resulting therefrom having proved to be valuable for both parts have established a tradition still prevailing. This tradition is based on grounds of suitability and friendly relationship.[82]

There is perhaps no more concise defense of the practice of universal banking than this one, written by Deutsche Bank officials in 1945.

As the German economy recovered, particularly after the important national currency reform of 1948, the successor banks began coming together like so many beads of mercury. At first their cooperation was informal, and sometimes covert. Despite orders from the occupation authorities not to work together, many of the managers of the Deutsche Bank's successor banks met privately to coordinate their activities. A director of one successor bank explained at a supervisory board meeting in 1949, "We continued to consider it our duty to the German economy as a whole to maintain the solidarity between the ten sister banks in West Germany, naturally while abiding by military regulations. . . . What we are operating is the collective business of banks."[83] A report prepared in 1950 by the three big German banks described a "continued intimacy between the incorporated Successor banks of each Pre-war bank." It suggested that "there seems no way to stop or prevent such intimacy without seriously harming the banks as well as the German economy."[84]

German banking leaders now began to push for recentralization. Hermann J. Abs of the Deutsche Bank played a crucial role in formulating their strategy and orchestrating their lobbying campaign. Along with representatives from the Dresdner Bank and the Commerzbank, Abs drafted a proposal in 1950 calling for the partial reconstitution of the great banks. The proposal defined three banking districts within West Germany, and suggested that each of the three big banks establish one regional bank in each district. Under this proposal, the Deutsche Bank's ten successor banks would be merged into three.

Abs and his compatriots insisted that at least this degree of recentralization was imperative. "Decentralization down to a level on which successor banks cannot operate profitably is wholly inadmissible," they wrote. "During times of recession and depression, the failure of only one joint stock bank can easily pull down the entire banking structure. The banking system of a country is only as strong as its weakest joint stock bank."[85]

Would consolidation of the successor banks strengthen the German economy or weaken it? This was a critical question facing the Allied powers and the new German legislature as they considered the bankers' proposal.

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Exhibit 1 German Exports, Imports, and Gross National Product (average annual percent change, in real terms)

Period	Exports	Imports	GNP
1840–1850	3.2%	1.8%	n.a.
1850–1860	5.2%	5.0%	2.1%
1860–1870	6.1	4.8	2.0
1870–1880	2.4	2.9	2.2

Source: Walther G. Hoffmann, *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts* (Berlin: Springer-Verlag, 1965), Tables 129 (pp. 530-31), 131 (pp. 538-39), and 103 (pp. 454-55).

Note: For GNP data before 1870, the Prussian per capita GNP was multiplied by the population of the area comprising the Deutsche Reich in 1870. Export and import data are for the area of the German Customs Union (Zollverein).

Exhibit 2 Vital Statistics for the Deutsche Bank, 1870–1919

Year	Assets, Berlin Office and its Branches (mil. Marks)	Net Income, Berlin Office and its Branches (mil. Marks)	Dividends on Common Stocks (%)	Turnover, Berlin Office and its Branches (mil. Marks)	Number of Current Accounts, Berlin	Number of Deposit Accounts, Berlin	Staff	Branches
1870	27.7	0.7	5.0	239.3	176	0	~50[a]	1
1880	169.4	6.0	10.0	10,484.5	2015	4812	~550	3
1890	423.3	11.2	10.0	28,304.1	3733	11,554	~950	4
1900	897.0	20.4	11.0	49,773.5	6585	51,622	2063	5
1910	2158.2	32.6	12.5	112,101.3	172,995		5816	10
1919	15,791.9[b]	64.5[b]	12.0	428,878.5[b]	601,921[c]		13,529	108

Sources: Manfred Pohl and Angelika Raab-Rebentisch, *Deutsche Bank: Dates, Facts and Figures, 1870–1993* (Mainz: Hase & Koehler, 1994); and assorted Annual Reports of the Deutsche Bank, 1870–1919.

[a]For the year 1871.

[b]Because of wartime inflation, the nominal-mark figures for 1919 represent overstatements as compared to the pre-war nominal-mark figures. In order to compare "real" values (i.e., values controlled for inflation), the 1919 figures may be divided by a deflator equal to 4.79 (to convert them to 1910 equivalents). Prices were generally stable in Germany prior to 1914.

[c]Total accounts for Berlin office and its branches.

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Exhibit 3 Security Flotations by the Deutsche Bank and by Syndicates in which the Deutsche Bank Participated, 1882–1908 (in millions of marks)

	Value of Securities Issued and Listed on German Stock Exchanges	German Public Securities (Bonds)	Foreign Public Securities (Bonds)	Foreign Railway Shares	Foreign Railway Bonds	German Industrial Shares	German Industrial Bonds	Other Flotations
1882–1896[a]								
DB Alone	2,744.9	178.2	115.7	0.0	2,131.0	26.7	8.7	284.9
DB Syndicate	5,253.9	1,229.8	2,259.6	40.4	997.4	92.4	160.0	474.1
1897–1908								
DB Alone	4,849.1	541.4	417.4	2,027.9	0.0	316.9	185.1	1,360.5
DB Syndicate	21,612.6	5,376.5	12,899.1	234.0	0.0	1,000.1	745.5	1,357.3

Source: Adapted from Jakob Riesser, The German Great Banks and their Concentration (Washington: Government Printing Office, 1911), third edition, Appendix V and VI (pp. 933–940 and 967–970).

[a]Securities issued and listed on Berlin Stock Exchange only.

Note: Throughout this period, the exchange rate was approximately 4.2 marks to the dollar.

Exhibit 4 Number of Seats Held by Officials of the Deutsche Bank on the Supervisory Boards of Other Firms

	1903	1945
Seats held by members of DB Managing Board	101	197
Seats held by members of DB Supervisory Board	120	328
Total	221	525

Sources: For 1903 data, see Otto Jeidels, Das Verhältnis der deutschen Grobbanken zur Industrie (Leipzig: Duncker & Humblot, 1905), p. 161. For 1945 data see Financial Division—Financial Investigation Section, Office of Military Government for Germany, United States, Ermittlungen gegen die Deutsche Bank, 1946/1947 (Nördlingen: Franz Greno, 1985), p. 366.

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Exhibit 5 Total Voting Shares[a] of the Deutsche Bank as a Fraction of Capital Present at the General Assemblies of Selected Large Firms, as of 1945 (in percent)

	Deutsche Bank Voting Shares (%)
I.G. Farben Industrie	38.1
BASF	
Bayer	
Hoechst	
Schering	40.0
Vereinigte Stahlwerke	18.8
Thyssen	
Hoesch	>27.0
Klöckner Werke	12.2
Mannesmann	53.9
Siemens	>16.0
BMW	>50.0
Daimler-Benz	>50.0
Hapag-Lloyd	>50.0

Sources: For 1945 data, see Finance Division—Financial Investigation Section, Office of Military Government for Germany, United States, Ermittlungen gegen dieDeutsche Bank, 1946/1947 (Nördlingen: Franz Greno, 1985), pp. 367-368.

[a]Total voting shares include Deutsche Bank's own holdings, shares held by Deutsche Bank investment companies, and proxy votes of shares deposited with the Deutsche Bank.

Exhibit 6 Vital Statistics for the Deutsche Bank, 1924–1944

	Assets (mil RM to 1944) (mil DM, 1952-)	Net Income (mil RM to 1944) (mil DM, 1952-)	Dividends (%)	Number of Accounts	Staff	Branches
1924	1,091	19	10	281,000	20,474	271
1929	5,534	34	10	800,000	21,600	466
1937	3,301	8	6	839,000	17,282	442
1944	11,374	10	6	na	na	na

Sources: Annual Reports of the Deutsche Bank; and data courtesy of the Historisches Archiv der Deutschen Bank.

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Endnotes

[1] Quoted in Lothar Gall, "The Deutsche Bank from its Founding to the Great War, 1870–1914," in Lothar Gall, et al., *The Deutsche Bank, 1870–1995* (London: Weidenfeld & Nicolson, 1995), p. 106.

[2] Gall, "The Deutsche Bank from its Founding to the Great War, 1870–1914," pp. 2–5, 7.

[3] Jakob Riesser, *The German Great Banks and their Concentration* (Washington: Government Printing Office, 1911), 3rd ed., p. 421.

[4] "Deutsche Bank," in Manfred Pohl, ed., *Handbook on the History of European Banks* (Brookfield, Vermont: Edward Elgar, 1994), p. 384; Gall, "The Deutsche Bank from its Founding to the Great War," pp. 2–3, 10; Manfred Pohl, "Selected Documents on the History of the Deutsche Bank," in *Studies on Economic and Monetary Problems and on Banking History* (Mainz: Hase & Koelher, 1988), p. 769.

[5] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 13–14.

[6] Gall, "The Deutsche Bank from its Founding to the Great War," p. 14. See also Karl Helfferich, *Georg von Siemens: Ein Lebensbild aus Deutschlands großer Zeit* (Krefeld: Richard Scherpe, 1956), pp. 11–15.

[7] "Glimpses of Deutsche Bank's Early Days—through the Papers of Hermann Wallich," in *Studies on Economic and Monetary Problems*, p. 395 ("Biographical Note"); Manfred Pohl, "Deutsche Bank's East Asia Business (1870–1875); A Contribution to the Economic History of China and Japan," in *Studies on Economic and Monetary Problems*, p. 426.

[8] "Glimpses of Deutsche Bank's Early Days—through the Papers of Hermann Wallich," p. 389. Please note that these paragraphs were reconstructed by Fritz Seidenzahl from a variety of collections of Wallich's papers.

[9] Pohl, "Deutsche Bank's East Asia Business," pp. 426–427; Gall, "The Deutsche Bank from its Founding to the Great War," pp. 17–18; Riesser, *The German Great Banks*, pp. 422–424.

[10] Riesser, The German Great Banks, pp. 424.

[11] Pohl, "Deutsche Bank's East Asia Business," especially pp. 448–450.

[12] Quoted in Riesser, *The German Great Banks*, p. 424.

[13] Prior to 1870, German firms and individuals were served by a wide variety of banking institutions. The short-term credit needs of firms were handled by private merchant banks and joint-stock banks. Private bankers were also involved with long-term financing. But as investment projects grew in size, especially with the advent of the railroads, long-term finance increasingly became the domain of bank syndicates and joint-stock banks. Transfers of funds between firms were sometimes coordinated by private note-issue banks, but more typically such payments were handled through the thick branch networks of government banks (especially the Prussian Bank established in 1846). Land purchases were generally financed by specialized mortgage banks. And while it was unusual for individual Germans to hold bank deposits in the mid-nineteenth century, those who did often carried accounts at public savings banks. See Holger L. Engberg, *Mixed Banking and Economic Growth in Germany, 1850–1931* (New York: Arno Press, 1981), pp. 20–28; Richard H. Tilly "Banking Institutions in Historical and Comparative Perspective: Germany, Great Britain and the United States in the Nineteenth and Early Twentieth Century," *Journal of Institutional and Theoretical Economics*, vol. 145, 1989, pp. 191–193; Richard Tilly, "A Short History of the German Banking System," in *Handbook on the History of European Banks*, pp. 301–304.

[14] Engberg, *Mixed Banking*, p. 101.

[15] Manfred Pohl, "The Deutsche Bank During the 'Company Promotion' Crisis (1873–1876)," in *Studies on Economic and Monetary Problems*, pp. 277–278; Riesser, *The German Great Banks*, pp. 115–116.

[16] "Glimpses of the Deutsche Bank's Early Days—through the Papers of Hermann Wallich," pp. 387–388.

[17] "Glimpses of the Deutsche Bank's Early Days—through the Papers of Hermann Wallich," p. 389; Gall, "The Deutsche Bank from its Founding to the Great War," p. 20.

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[18] Gall, "The Deutsche Bank from its Founding to the Great War," p. 19; Riesser, *The German Great Banks*, p. 473.

[19] Gall, "The Deutsche Bank from its Founding to the Great War," p. 19; Erich Achterberg, "Georg von Siemens—Banker," in *Studies on Economic and Monetary Problems*, pp. 314–316.

[20] Annual Reports of the Deutsche Bank for the years 1880, 1890, 1900, 1910, and 1913. See especially the respective balance sheets.

[21] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 29–30.

[22] Sometimes the bank rolled over short-term current-account loans on an ongoing basis, thus effectively transforming them into long-term loans. Although historians are not sure just how common this practice of rolling over was, it is likely that it was normally done only in anticipation of an upcoming security issue. See Engberg, *Mixed Banking*, pp. 100–101; see also Hugh Neuburger and Houston H. Stokes, "German Banks and German Growth, 1883–1913: an Empirical View," *Journal of Economic History*, vol. 34, no. 3 (1974), especially p. 715; and Rainer Fremdling and Richard Tilly, "German Banks, German Growth, and Econometric History," *Journal of Economic History*, vol. 36, no. 2 (1976), especially pp. 418–420. On the limited role of current accounts in long-term industrial financing, see also Volker Wellhöner and Harald Wixforth, "Unternehmensfinanzierung durch Banken—Ein Hebel zur Etablierung der Bankenherrschaft? Ein Beitrag zum Verhältnis von Banken und Schwerindustrie in Deutschland während des Kaiserreichs und der Weimarer Republik," in Dietmar Petzina, ed., *Zur Geschichte der Unternehmensfinanzierung [Schriften des Vereins für Socialpolitik*, Neue Folge, Band 196] (Berlin: Duncker & Humblot, 1990), pp. 11–33, especially p. 17.

[23] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 30–31.

[24] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 30–45.

[25] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 31, 34; Engberg, *Mixed Banking*, pp. 143–145.

[26] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 38–39.

[27] Volker Wellhöner, *Großbanken und Großindustrie im Kaiserreich* (Göttingen: Vandenhoeck u. Ruprecht, 1989), p. 217; Georg Siemens, *History of the House of Siemens*, vol. 1, trans. by A.F. Rodger (Freiburg: Karl Alber, 1957), pp. 152–159; Gall, "The Deutsche Bank from its Founding to the Great War," pp. 36–37; Wilfried Feldenkirchen, *Siemens, 1918–1945* (Munich: Piper, 1995), pp. 35, 660; Hans Otto Eglau, *Wie Gott in Frankfurt* (Düsseldorf: Econ Verlag, 1989), pp. 22–23.

[28] Walther G. Hoffmann, *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts* (Berlin: Springer-Verlag, 1965), table 248 (p. 826).

[29] *Untersuchung des Bankwesens 1933*, II. Teil: Statistics (Berlin: Carl Heymanns Verlag, 1934), pp. 138, 114, 122; Annual Report of the Deutsche Bank for 1913. According to Theo Balderston, who relies on an additional source with a broader definition of the banking system, total system assets equalled 68 billion marks in 1913 ["German Banking between the Wars: The Crisis of the Credit Banks," *Business History Review*, vol. 65 (Autumn 1991), p. 556]. Based on this definition, Deutsche Bank assets amounted to 3.2 percent of total system assets.

[30] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 22, 89. Although the bank was involved in a wide variety of ventures, not all of these projects were successful. The international ones, in particular, entailed great risks. At the insistence of Georg Siemens, for example, the Deutsche Bank had become heavily involved beginning in the 1880s in financing the Northern Pacific Railroad in the United States. When the Northern Pacific nearly collapsed in the early 1890s, Siemens was profoundly shaken. In fact, he used his own personal funds to buy back shares of some of those clients who had invested on his recommendation. Ultimately, the Deutsche Bank, together with the American banking house of J.P. Morgan, worked to reorganize the railroad and succeeded in bringing share values back to their original levels. But the whole experience was a trying one. A careful historian of the subject has observed that "Northern Pacific's insolvency was perhaps the hardest test that Siemens had to face. . . ." It is some measure of the Deutsche Bank's extraordinary success in its early years that Siemens' "hardest test" involved a venture that ultimately broke even and may have yielded a

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profit for its investors. See Achterberg, "Georg von Siemens," p. 318; Gall, "The Deutsche Bank from its Founding to the Great War," pp. 62–64.

[31] Gerald D. Feldman, "The Deutsche Bank from World War to World Economic Crisis, 1914–1933," in *The Deutsche Bank, 1870–1995*, pp. 135, 130. See also Annual Reports of the Deutsche Bank, 1914–1918.

[32] Annual Report of the Deutsche Bank for 1918 (English version), p. 3.

[33] Quoted in Feldman, "The Deutsche Bank . . . 1914–1933," p. 160.

[34] Ibid., pp. 163–164.

[35] A.J.P. Taylor, *The Course of German History* (London: Methuen & Co., 1982 [1945]), pp. 222–223; Karl Erich Born, "Deutsche Bank during Germany's Great Inflation after the First World War," in *Studies on Economic and Monetary Problems*, p. 496.

[36] Annual Report of the Deutsche Bank for 1919 (English version), p. 11.

[37] Gall, "The Deutsche Bank from its Founding to the Great War," pp. 67–77; Feldman, "The Deutsche Bank . . . 1914–1933," pp. 141–145. The Deutsche Bank's involvement with the Baghdad Railway during the war provided the bank's directors with their first exposure to policies of genocide. Managing director Arthur Gwinner received reports in 1915 from Franz Günther, the vice president of the Anatolian Railway Company, that the Turks were sending trainloads of Armenians off into the desert and that the cars were coming back empty. "One has to go far back into the history of humanity," Günther observed, "to find something comparable in its bestial horribleness as the extermination of the Armenians in today's Turkey. The pogroms against the Jews in Russia, which I know, are child's play and one has to go back to the expulsion of the Moors from Spain and the persecution of the Christians by Rome to find an analogy to what is taking place here." Günther concluded, "It appears that the government wants to eradicate the entire tribe, root and branch, for this is the only thing that can result from their behavior, and if things go on this way, they may only too well succeed." The Deutsche Bank contributed money to help the Armenians, but did no more since the Ottoman Empire was a wartime ally of Germany. The above passages are quoted in Feldman, "The Deutsche Bank . . . 1914–1933," p. 142. The story of the bank's exposure to the genocide described above is also based on an interview with Martin Müller, assistant archivist at the Deutsche Bank, October 11, 1995.

[38] See especially Born, "Deutsche Bank during Germany's Great Inflation," pp. 499–500, 511. When the management released their annual report for 1919 on the fiftieth anniversary of the bank's founding, it is not surprising that their mood was somber rather than joyful. "Having regard to the sad conditions which have come upon our country as a consequence of the disastrous conclusion of the war," the report announced, "we are abstaining from celebrating [our anniversary]." See Annual Report of the Deutsche Bank for 1919, (English version), p. 9.

[39] Gerald D. Feldman, *Iron and Steel in the German Inflation, 1916–1923* (Princeton: Princeton University Press, 1977), Appendix I (p. 472); Don Paarlberg, *An Analysis and History of Inflation* (Westport, Conn.: Praeger, 1993), pp. 53–66.

[40] Konrad Heiden, *Der Fuehrer: Hitler's Rise to Power*, trans. Ralph Manheim (Boston: Houghton Mifflin Company, 1944), pp. 125–127.

[41] Annual Report of the Deutsche Bank for 1922 (English version), p. 8.

[42] Feldman, "The Deutsche Bank . . . 1914–1933," pp. 193–196.

[43] See Annual Report of the Deutsche Bank for 1922 (English version), p. 10; Manfred Pohl and Angelika Raab-Rebentisch, *Deutsche Bank: Dates, Facts, and Figures, 1870–1993* (Mainz: Hase & Koehler, 1994), pp. 35, 78; Born, "Deutsche Bank during Germany's Great Inflation," pp. 498–499.

[44] Born, "Deutsche Bank during Germany's Great Inflation," pp. 509–511; Feldman, "The Deutsche Bank . . . 1914–1933," p. 200.

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[45] Born, "Deutsche Bank during Germany's Great Inflation," pp. 506–509; Feldman, "The Deutsche Bank . . . 1914–1933," p. 205.

[46] Theo Balderston, "German Banking between the Wars: The Crisis of the Credit Banks," *Business History Review*, vol. 65 (Autumn 1991), pp. 564–576.

[47] See Wilfried Feldenkirchen, "Big Business in Interwar Germany: Organizational Innovation at Vereinigte Stahlwerke, IG Farben, and Siemens," *Business History Review*, vol. 61, No. 3 (Autumn 1987), pp. 417–451.

[48] Quoted in Feldman, "The Deutsche Bank . . . 1914–1933," pp. 202–203.

[49] Feldman, "The Deutsche Bank . . . 1914–1933," p. 220–221.

[50] Quoted in Feldman, "The Deutsche Bank . . . 1914–1933," pp. 232–233. On concentration within the banking industry from 1914 to 1929, see especially Manfred Pohl, *Konzentration im deutschen Bankwesen, 1848–1980* (Frankfurt: Fritz Knapp Verlag, 1982), pp. 285–357.

[51] Feldman, "The Deutsche Bank . . . 1914–1933," pp. 230–236.

[52] Balderston, "German Banking between the Wars," pp. 574–576; Feldman, "The Deutsche Bank . . . 1914–1933," pp. 234, 237–238.

[53] *Untersuchung des Bankwesens 1933*, I. Teil, I. Band, p. 512; Balderston, "German Banking Between the Wars," pp. 564, 568–569, 581–584.

[54] Angus Maddison, *Dynamic Forces in Capitalist Development: A Long-Run Comparative View* (New York: Oxford University Press, 1991), tables A.7 (pp. 212–213) and F.3 (pp. 316–317).

[55] Prices were falling as well, but at a much slower rate. In real terms, the value of deposits in 1931 stood at 72 percent of their 1929 level.

[56] Annual Report of the Deutsche Bank for 1937(English version), balance-sheet historical summary at end.

[57] Feldman, "The Deutsche Bank ... 1914–1933," pp. 258–268. See also Fritz Seidenzahl, "The Deutsche Bank's Help for the Danatbank at the Height of the Crisis in July 1931," in *Studies on Economic and Monetary Problems*, pp. 135–145.

[58] Balderston, "German Banking Between the Wars," pp. 596–598.

[59] Hans E. Büschgen, "Banking in Germany, Britain and the United States—A Comparative Appraisal," in *Studies on Economic and Monetary Problems*, especially pp. 269–70; Feldman, "The Deutsche Bank . . . 1914–1933," pp. 268, 270, 271.

[60] Untersuchung des Bankwesens 1933, I. Teil, I. Band, p. 512.

[61] Annual Report of the Deutsche Bank und Disconto-Gesellschaft for 1933, (English version), p. 5.

[62] Harold James, "The Deutsche Bank and the Dictatorship, 1933–1945," in *The Deutsche Bank, 1870–1995*, pp. 294–295.

[63] James, "The Deutsche Bank . . . 1933–1945, pp. 294–295; Ernst Wilhelm Schmidt, *Männer der Deutschen Bank und der Disconto-Gesellschaft* (Düsseldorf, 1957), pp. 118, 72.

[64] Quoted in James, "The Deutsche Bank . . . 1933–1945," p. 296.

[65] James, "The Deutsche Bank . . . 1933–1945," p. 297; Schmidt, *Männer der Deutschen Bank*, p. 62. On the role of four prominent Jewish bankers (Max Warburg, Oscar WassermanN, Jacob Goldschmidt, and Georg Solmssen) during the Weimar period and the rise of Nazism in Germany, see Gerald D. Feldman, "Jewish Bankers and the Crises of the Weimar Republic," *The Leo Baeck Memorial Lecture* 39 (New York: Leo Baeck Institute, 1995).

[66] James, "The Deutsche Bank . . . 1933–1945," pp. 298, 300–301, 342–344; Feldman, "The Deutsche Bank . . . 1914–1933," pp. 249, 254–256, 273.

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[67] Annual Reports of the Deutsche Bank for 1929, 1937, and 1944; Balderston, "German Banking Between the Wars," pp. 602–603.

[68] Kristallnacht (the night of broken glass) describes an explosion of violence against Jews and Jewish property all across Germany on the night of November 9, 1938. Almost 100 Jewish persons lost their lives that night, many Synagogues were burned down or otherwise vandalized, and over seven thousand Jewish businesses were destroyed. The Deutsche Bank felt the impact in a variety of ways. The very next day, for example, the Gestapo began looking for Hermann Wallich's son Paul. Hermann Wallich had served with Georg Siemens as one of the first managing directors of the Deutsche Bank back in 1870. Hermann had died in 1928. Although Paul had been baptized as a baby, had vigorously renounced Judaism as an adult, and had probably even helped to arrange a loan from the United States for Adolf Hitler, he ended up on the Gestapo's list of Jews to arrest following Kristallnacht. In order to escape formal prosecution, Paul Wallich jumped off a bridge and killed himself on November 11. "I wanted to do it tomorrow," he wrote in a suicide note to his wife (who was herself safe because she was a Christian), "but now I've decided to do it today as I don't want to run into any danger. . . . I am so tired and know that I'll be doing you and the children no good if I act any differently. . . . You needn't resist placing the Nazi flag outside the old house at the Glienicke Bridge. The power that I've succumbed to is a world power. Do not be ashamed of my end, but do acknowledge the victor, as I myself am doing. I shall be thinking of you, my most beloved, in the last moment. All the best to you and the children." One of Paul's children, Henry C. Wallich, was then in the United States and would later become a governor of the Federal Reserve Board. After the war, Henry served with the American occupation force and helped to reconstruct the devastated German economy; and he remained a lifelong friend of the Deutsche Bank. See Katie Hafner, *The House at the Bridge: A Story of Modern Germany* (New York: Scribner, 1995), pp. 25–26, 45–48. See also Werner E. Mosse, "Problems and Limits of Assimilation; Hermann and Paul Wallich 1833–1938," *Leo Baeck Institute Yearbook*, vol. 33 (1988), pp. 43–65.

[69] See Herbert Wolf, "Zur Kontrolle und Enteignung jüdischen Vermögens in der NS-Zeit—Das Schicksal des Rohtabakhändlers Arthur Spanier," *Bankhistorisches Archiv Zeitschrift zur Bankengeschichte*, Juni 1990, pp. 55–62. See also Jewish-account files from the Deutsche Bank's Mannheim branch, Historisches Archiv der Deutschen Bank.

[70] Oswald Rösler, Aktennotiz, 20 Juli 1943, Bundesarchiv Potsdam, R 8119 F, P 6855, fol. 179–179a. The first third of this quote is cited and translated in James, "The Deutsche Bank ... 1933–1945," pp. 328–329. On bank involvement in the "Aryanization" of Jewish property, see also James, "The Deutsche Bank ... 1933–1945," pp. 305–308; and especially Christopher Kopper, *Zwischen Marktwirtschaft und Dirigismus: Bankenpolitik im "Dritten Reich," 1933–1939* (Bonn: Bouvier Verlag, 1995), especially pp. 220–291.

[71] James, "The Deutsche Bank . . . 1933–1945," pp. 332–335.

[72] Ibid., pp. 341–342, 349–350.

[73] Ibid., pp. 355–356.

[74] Carl Ludwig Holtfrerich, "The Deutsche Bank 1945–1957: War, Military Rule and Reconstruction," in *The Deutsche Bank, 1870–1995*, p. 367. According to Holtfrerich, the various members of the Deutsche Bank's managing board "had been arrested, suspended, or fired" within a short time of Germany's defeat.

[75] Holtfrerich, "The Deutsche Bank 1945–1957," pp. 417–418. For the Financial Division's report on the Deutsche Bank, see Finance Division—Financial Investigation Section, Office of Military Government for Germany, United States, *Ermittlungen gegen die Deutsche Bank, 1946/1947* (Nördlingen: Franz Greno, 1985).

[76] Holtfrerich, "The Deutsche Bank 1945–1957," pp. 373–377, 433–434.

[77] See Manfred Pohl, "The Dismemberment and Reconstruction of Germany's Big Banks, 1945–1957," in *Studies on Economic and Monetary Problems*, especially pp. 343–347; "Germany's Capital Needs; Has Credit Policy been too Restrictive?" *The Banker*, vol. 91, No. 282 (July 1949), pp. 17–21.

[78] Quoted in Holtfrerich, "The Deutsche Bank 1945–1957," p. 409.

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[79] On differences between banking systems in the U.S., Britain, and Germany, see Büschgen, "Banking in Germany, Britain and the United States," pp. 263–275. On the British position, see especially Holtfrerich, "The Deutsche Bank 1945–1957," pp. 410–411, 422.

[80] "Die Dezentralisation der Grossbanken," 2 November 1949, Historisches Archiv der Deutschen Bank, Rheinisch-Westfälische Bank, 6.

[81] Ibid.

[82] Report to the Occupation Authorities (from Clemens Plassmann), 31 December 1945, Historisches Archiv der Deutschen Bank, Rheinisch-Westfälische Bank, 411.

[83] Quoted in Holtfrerich, "The Deutsche Bank 1945–1957," p. 430.

[84] "The Future Structure of German Joint Stock Banks," (Memorandum, English version), 12 February 1950, Historisches Archiv der Deutschen Bank, Rheinisch-Westfälische Bank, 64, pp. 16–17.

[85] Ibid., pp. 5, 6.

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